SaskTel

Financial Statements of

SASKATCHEWAN TELECOMMUNICATIONS

December 31, 2008

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AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the statement of financial position of Saskatchewan Telecommunications as at December 31, 2008 and the statements of operations and comprehensive income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
February 23, 2009

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Statement of Operations and Comprehensive Income

For the year ended December 31, (Thousands of dollars)	2008	2007
Operating revenues	$1,044,517	$978,025
Operating expenses		
Operations	737,113	695,570
Depreciation and amortization	160,462	157,899
Restructuring charges (Note 6)	21,506	45,636
Write down of assets held for sale (Note 7)	8,274	-
	927,355	899,105
Income from operations	117,162	78,920
Other items	4,388	4,283
Interest and related items (Note 8)	(21,933)	(26,163)
Net income	99,617	57,040
Other comprehensive income	-	-
Comprehensive income	$99,617	$57,040

See Accompanying Notes

Statement of Retained Earnings

For the year ended December 31, (Thousands of dollars)	2008	2007
Retained earnings, beginning of year	$192,232	$172,268
Net income	99,617	57,040
	291,849	229,308
Dividends	64,751	37,076
Retained earnings, end of year	$227,098	$192,232

See Accompanying Notes

Saskatchewan Telecommunications

Statement of Financial Position

As at December 31, (Thousands of dollars)	2008	2007
Assets		
Current assets		
Accounts receivable (Note 17a)	**$85,293**	$99,075
Inventories	**8,066**	8,662
Prepaid expenses (Note 17a)	**11,689**	12,067
Assets held for sale (Note 7)	**7,423**	-
	112,471	119,804
Property, plant and equipment (Note 9)	**871,914**	904,220
Indefinite-life intangible assets (Note 10)	**65,981**	-
Sinking funds (Note 11)	**50,084**	45,566
Deferred pension costs (Note 19)	**91,518**	60,761
Assets held for sale (Note 7)	**6,601**	-
Other assets (Note 12)	**9,411**	9,972
	$1,207,980	$1,140,323
Liabilities and Province's equity		
Current liabilities		
Bank indebtedness	**$6,669**	$2,479
Accounts payable and accrued liabilities (Note 17a)	**110,572**	134,543
Dividend payable	**23,411**	5,545
Services billed in advance (Note 17a)	**49,028**	44,116
Current portion of long-term debt (Note 14)	**2,339**	23,134
Liabilities related to assets held for sale (Note 7)	**6,570**	-
	198,589	209,817
Deferred revenue	**10,714**	12,274
Notes payable (Note 13)	**217,003**	171,339
Long-term debt (Note 14)	**219,004**	219,089
	645,310	612,519
Province of Saskatchewan's equity		
Equity advances (Note 15)	**335,572**	335,572
Retained earnings	**227,098**	192,232
	562,670	527,804
	$1,207,980	$1,140,323

See Accompanying Notes

On behalf of the Board:

Grant Kook

Blair Davidson

Saskatchewan Telecommunications

Statement of Cash Flows

For the year ended December 31, (Thousands of dollars)	2008	2007
Operating activities		
Net income	$99,617	$57,040
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	160,462	157,899
Write down of assets held for sale (Note 7)	8,274	-
Pension expense of defined benefit plan	(12,741)	(5,810)
Special termination benefits cost (Note 19)	11,584	31,884
Contributions to defined benefit pension plans	(29,727)	(40,321)
Sinking fund earnings	(2,693)	(1,552)
Change in fair value of financial instruments	391	(111)
Other	(1,969)	(161)
Net change in non-cash working capital (Note 17b)	(5,495)	(10,237)
Cash provided by operating activities	227,703	188,631
Investing activities		
Property, plant and equipment expenditures	(141,118)	(164,468)
Spectrum licenses	(65,981)	-
Cash used in investing activities	(207,099)	(164,468)
Financing activities		
Increase in notes payable to Holdco	45,664	38,325
Sinking fund installments	(2,216)	(2,216)
Repayment of long-term debt	(20,780)	(13,601)
Capital lease obligations	(16)	(19)
Dividends paid	(46,885)	(40,491)
Financing leases	(561)	(674)
Cash used in financing activities	(24,794)	(18,676)
Increase (decrease) in cash	(4,190)	5,487
Cash and cash equivalents, beginning of year	(2,479)	(7,966)
Cash and cash equivalents, end of year	$(6,669)	$(2,479)
Comprised of:		
Bank indebtedness	$(6,669)	$(2,479)

See Accompanying Notes

Notes to Financial Statements

Note 1 – The Corporation

Saskatchewan Telecommunications (the Corporation) markets and supplies a range of voice, data, internet, wireless, text, image and entertainment products, systems and services. The Corporation is a Saskatchewan Provincial Crown corporation operating under the authority of *The Saskatchewan Telecommunications Act* and, as such, the Corporation is not subject to Federal or Provincial income taxes in Canada.

The Canadian Radio-television and Telecommunications Commission (CRTC) regulates the Corporation under the *Telecommunications Act* (Canada).

By virtue of *The Crown Corporations Act, 1993,* the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of the Corporation are included in the financial statements of CIC, a Provincial Crown corporation, through consolidation with Saskatchewan Telecommunications Holding Corporation (Holdco).

Note 2 – Change in accounting policies

Effective January 1, 2008, the Corporation adopted the accounting recommendations for capital disclosures (Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535) in accordance with the transition provisions of the section. This section requires disclosure of information related to the objectives, policies and processes for managing capital, and particularly whether externally imposed capital requirements have been complied with. As this standard only addresses disclosure requirements, there is no impact on the Corporation's operating results.

Effective January 1, 2008, the Corporation adopted the accounting recommendations for financial instruments - disclosures (CICA Handbook Section 3862) and financial instruments - presentation (CICA Handbook Section 3863) in accordance with the transition provisions of the sections. These sections replace the existing disclosure and presentation recommendations contained in financial instruments – disclosure and presentation (CICA Handbook Section 3861). The new disclosure standards increase the disclosures related to financial instruments, and the nature, extent and management of the Corporation's risks arising from financial instruments. The presentation standards carry forward unchanged the former presentation requirements. As these standards only address disclosure and presentation requirements, there is no impact on the Corporation's operating results.

Effective January 1, 2008, the Corporation adopted the accounting recommendations for inventories (CICA Handbook Section 3031). The new recommendations establish standards for the determination of the cost of inventories and the subsequent recognition as expense, including any write-down to net realizable value and reversals of previous write-downs for increases to net realizable value. There is no material impact on the Corporation's operating results as a result of implementing the new recommendations.

Notes to Financial Statements

Note 3 – Summary of significant accounting policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in Canada (GAAP).

Cash and short-term investments

Cash and short-term investments include interest bearing investments with Holdco that are due on demand and are stated at fair value.

Inventories

Materials, supplies and inventories are recorded at the lower of cost and net realizable value. Cost is determined using an average-cost basis.

Property, plant and equipment

Property, plant and equipment is recorded at cost including materials, services and direct labour.

Depreciation and amortization on property, plant and equipment is computed on the straight-line basis, using rates determined by a continuing program of engineering studies for each class of property in service.

Asset	Estimated useful life
Buildings	25 - 35 years
Plant and equipment	2 - 50 years
Office furniture, equipment and leaseholds	3 - 17 years

With respect to property, plant and equipment acquired and constructed or developed over time, the Corporation follows the policy of capitalizing related equipment, construction and installation costs, including direct labour, as plant under construction. These costs are then depreciated and amortized on a basis consistent with the Corporation's depreciation and amortization policy from the date the asset is substantially completed and put into productive use.

Assets held for sale and discontinued operations

Long lived assets are classified as held for sale when certain criteria are met, which include: the Corporation's commitment to a plan to sell the assets; the assets are available for immediate sale in their present condition; an active program to locate buyers and other actions to sell the assets have been initiated; the sale of the assets is probable and their transfer is expected to qualify for recognition as a completed sale within one year; the assets are being actively marketed at reasonable prices in relation to their fair value; and it is unlikely that significant changes will be made to the plan to sell the assets or that the plan will be withdrawn.

A group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction represent a disposal group and are reflected as assets and liabilities held for sale.

The Corporation measures long-lived assets held for sale at the lower of carrying amount or fair value less cost to sell. These assets are not depreciated or amortized.

Notes to Financial Statements

Note 3 – Summary of significant accounting policies, continued

A component of the Corporation that is held for sale is reported as a discontinued operation if the operations and cash flows of the component will be eliminated from the ongoing operations as a result of a disposal transaction and the Corporation will not have a significant continuing involvement in the operations of the component after the disposal transaction.

Impairment of long-lived assets

Long-lived assets, including property, plant and equipment, are amortized over their useful lives. The Corporation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized on a long-lived asset to be held and used when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposal. The amount of loss recorded is determined by deducting the asset's fair value (based on discounted cash flows from its use and disposition) from its carrying value.

Asset retirement obligations

Legal obligations associated with the retirement of property, plant and equipment are initially measured at fair value and are adjusted for any changes resulting from the passage of time and any changes to the timing or amount of the original estimate of undiscounted cash flows. The asset retirement cost is capitalized as part of the related asset and is amortized into earnings over the asset's useful life. There were no significant asset retirement obligations as at December 31, 2008.

Intangible assets

Intangible assets are recorded at cost of acquisition or development, including where applicable direct development costs, overhead costs directly attributable to development activity and betterment costs. Intangible assets with a finite useful life are amortized using the straight-line method at rates that will reduce the cost to any estimated residual value over the estimated useful life.

Intangible assets with a finite life are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. They are written down to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value.

Indefinite-life intangible assets

Intangible assets with an indefinite life are not subject to amortization; they are tested annually for impairment to ensure that their fair value is greater than or equal to their carrying value. Any excess of carrying value over fair value is charged to income in the period in which impairment is determined.

Revenue recognition

Revenues are recognized in the period the services are provided when there is clear proof that an arrangement exists, amounts are determinable and the ability to collect is reasonably assured. Revenues from local telecommunications, data, internet, entertainment and security services are recognized based on access to the Corporation's network and facilities at the rate plans in effect during the period the service is provided. Certain service connection charges and activation fees, along with corresponding direct costs are deferred and recognized over the average expected term of the customer relationship. Revenues from long distance and wireless airtime are recognized based on the usage or rate plans in the

Notes to Financial Statements

Note 3 – Summary of significant accounting policies, continued

period service is provided. Revenues from equipment sales are recognized when the equipment is delivered to and accepted by the customer. Revenues for longer term contracts are recognized based on a percentage of completion. Payments received in advance are recorded as deferred revenue until the product or service is delivered.

Customer solutions may involve the delivery of multiple services and products that occur at different points and over different periods of time. The multiple services are separated into their respective accounting units and consideration is allocated among the accounting units. The relevant revenue recognition policies are applied to each accounting unit.

The CRTC has established a National Subsidy Fund to subsidize Local Exchange Carriers (LECs), like the Corporation, that provide service to residential customers located in high cost service areas (HCSAs). The CRTC has set the rate per line and band for all LECs. The Corporation recognizes the revenue on an accrual basis by applying the rate to the number of residential network access lines served during the period in HCSAs.

Employee future benefits

The Corporation has: a defined benefit pension plan (a), a defined contribution pension plan (b), and a service recognition defined benefit plan (c).

a) Defined benefit pension plan
The Corporation accrues its obligations under the Saskatchewan Telecommunications Pension Plan and the related costs, net of plan assets. The Corporation has adopted the following policies related to the defined benefit plan:

The cost of pension benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees.

Pension plan assets are valued at fair value, which is determined using current market values.

Expected return on plan assets is calculated based on a five year weighted average of actuarial gains and losses, expected returns on plan assets, and contributions and benefit payments made in the current year.

Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees who were active on the day of the amendment but not yet fully eligible to receive benefits (8.3 years). This represents the period that economic benefits from the amendments are expected to be realized.

The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the market related value of the plan assets is amortized over the average remaining life of retired members of the plan. The average remaining life of retired members was calculated as a weighted average of 22 years.

When the restructuring of a benefit plan results in a settlement and a curtailment of obligations, the curtailment is accounted for prior to the settlement.

b) Defined contribution pension plan
Defined contribution plan costs are recognized as employees render services during the year.

Notes to Financial Statements

Note 3 – Summary of significant accounting policies, continued

c) Service recognition defined benefit plan
The Corporation provides a service recognition defined benefit plan for its employees. The cost of the plan is determined using the projected benefit method prorated on service.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Translation gains and losses on foreign currency denominated monetary items are taken into income in the current year.

Financial instruments

Upon initial recognition, financial instruments are measured at fair value and are classified as held-to-maturity, held-for-trading, available-for-sale, loans and receivables or other liabilities. Held-to-maturity assets are carried at amortized cost with amortized premiums or discounts and other than temporary losses due to impairment included in net income. Held-for-trading assets and liabilities are carried at fair value with any gains or losses included in net income. Available-for-sale assets are carried at fair value with revaluation gains or losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, and other liabilities are accounted for at amortized cost using the effective interest method. Transaction costs are included in the initial carrying value of the financial instrument except for held-for-trading instruments in which case they are expensed as incurred.

Derivative financial instruments are used by the Corporation in the management of its financial exposures as deemed appropriate, and based on the risk management strategy of the Corporation. The Corporation's policy is not to use derivative financial instruments for trading or speculative purposes.

The Corporation, from time to time, is party to certain derivative financial instruments, principally interest rate swap contracts (used to manage the exposure to market risks from changing interest rates) and forward foreign exchange contracts (used to manage foreign currency exposures).

The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

For fair value hedges, changes in the fair value of the derivatives and corresponding changes in fair value of the hedged items attributed to the risk being hedged will be recognized in net income. For cash flow hedges, the effective portion of the changes in the fair values of the derivative instruments will be recorded in other comprehensive income until the hedged items are recognized in net income.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amounts of property, plant and equipment and underlying estimations of useful lives of depreciable assets and capitalization of labour and overhead, the carrying amount of intangible assets and underlying estimates of future cash flow, the carrying amounts of accounts

Notes to Financial Statements

Note 3 – Summary of significant accounting policies, continued

receivable and underlying provision for bad debts and the carrying amounts of deferred pension costs and underlying actuarial assumptions. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Note 4 – Accounting policy developments

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises, including the Corporation, will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior year. the Corporation has commenced an IFRS conversion project including initiating the development of a high level IFRS implementation plan. An external advisor has been engaged to assist with the development of this plan and to perform a detailed review of major differences between current Canadian GAAP and IFRS. Work is in the early stages and, as a result, the impact on the Corporation's future financial position and results of operations is not reasonably determinable.

Goodwill and intangible assets

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets". Section 3064 states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria. This section also provides further information on the recognition of internally generated intangible assets (including research and development costs). As for the subsequent measurement of intangible assets, goodwill, and disclosure, Section 3064 carries forward the requirements of the old Section 3062, "Goodwill and Other Intangible Assets". These changes will be effective for year-ends beginning on or after October 1, 2008. The Corporation is currently evaluating the effect of the adoption of this new section on the financial statements.

Rate regulated operations

The CICA has amended certain sections of the CICA Handbook to remove the rate regulation exemption for recognition of certain assets and liabilities arising from rate regulation as well as other recognition and measurement guidance. These changes will be effective for year-ends beginning on or after January 1, 2009. The Corporation is currently assessing the impact of implementation of these recommendations.

Note 5 – Rate regulation

The Corporation's telecommunications and broadcast services are regulated by the CRTC. However, the CRTC only regulates rates for specific telecommunications services and only in locations where the Commission believes that the level of competition in that service is not high enough that market forces can be relied on to protect the interests of customers. For these 'non-forborne' services, the rate which the Corporation may charge must receive CRTC approval prior to being implemented and may not be set below the long run incremental cost of the service, calculated according to CRTC costing rules.

Notes to Financial Statements

Note 5 – Rate regulation, continued

The CRTC also regulates the rates for all services that are designed for use by competitors. The CRTC requires rates for many of these services to be based on long run incremental costs plus approved mark-ups.

In addition, the CRTC has implemented a price cap framework which: limits the Corporation's flexibility in the pricing of some rate regulated retail services; subjects certain competitor service rates to potential annual decreases; and prohibits the Corporation from altering basic residential access rates in areas deemed to be Low Cost Serving Areas.

The CRTC has established a subsidy mechanism aimed at keeping basic residential access affordable in areas deemed by the CRTC to be High Cost Serving Areas (HCSAs). In these areas the Corporation receives a subsidy from the National Contribution Fund equal to the difference between long-run incremental costs in these areas and the rates charged to subscribers. Therefore the revenue received by the Corporation in these areas is effectively the rate charged to subscribers plus the subsidy per line. The cost component of the subsidy calculation amount is adjusted annually based on assumed productivity gains less inflation. The rate component is also adjusted annually as the CRTC has given the Corporation the ability to make annual rate increases equal to the rate of inflation in HCSAs, however, even if the Corporation does not raise rates in these areas, the increase is assumed to have been applied and the subsidy per line is decreased.

Approximately 20% (2007 – 30%) of the Corporation's operating revenues are currently subject to CRTC rate regulation. Rate regulation does not result in the Corporation selecting accounting policies that would differ from generally accepted accounting principles.

Note 6 – Restructuring charges

During 2008, $21,506,097 (2007 - $45,635,727) was recorded to restructuring charges. The charges relate to phase three of a three phase voluntary early retirement program (ERP) with each phase occurring over a two year period.

The ERP has been undertaken to reduce operating costs and manage the employee demographic profile in the context of a changing labour market. During 2008, 123 employees (2007 – 163) elected to receive a package that included a cash allowance and immediate pension benefits.

An additional charge of approximately $6.4 million is expected to be incurred in 2009. These costs are not eligible for recognition at December 31, 2008 and will be expensed as incurred.

The table below provides a summary of the costs recognized and the liability recorded at December 31:

	2008	2007
		(Thousands of dollars)
Balance in accounts payable and accrued liabilities, beginning of year	$9,760	$8,067
Restructuring charges	21,506	45,636
Less:		
Cash payments	10,542	12,059
Special termination benefits costs (Note 19)	11,584	31,884
Balance in accounts payable and accrued liabilities, end of year	$9,140	$9,760

Notes to Financial Statements

Note 7 – Write down of assets held for sale

During the fourth quarter of 2008, the Corporation approved a plan whereby specific underperforming out of province assets will be divested and the criteria for classification as assets held for sale have been met. As a result of the plan for disposal, the long-lived assets held for sale have been written down to the lower of their carrying amount and fair value less cost to sell, resulting in a charge to operations of $8,273,760.

As a result, the related assets and liabilities have been reported as assets held for sale and liabilities related to assets held for sale in the Statement of Financial Position for the current period.

The assets held for sale and the related liabilities were as follows:

	2008	2007 (Thousands of dollars)
Assets		
Accounts receivable	$7,401	$-
Prepaid expenses	22	-
	7,423	-
Property, plant and equipment	6,601	-
	$14,024	-
Liabilities		
Accounts payable and accrued liabilities	$4,586	-
Other liabilities	1,984	-
	$6,570	$-

Note 8 – Interest and related items

	2008	2007 (Thousands of dollars)
Interest expense	$24,235	$27,826
Sinking fund earnings	(2,693)	(1,552)
Change in fair value of financial instruments	391	(111)
	$21,933	$26,163

Notes to Financial Statements

Note 9 – Property, plant and equipment

	Cost	Accumulated depreciation and amortization	Net book value	
			2008	2007
			(Thousands of dollars)	
Buildings	$193,220	$103,194	$90,026	$83,146
Plant and equipment	2,308,668	1,735,761	572,907	597,708
Office furniture, equipment and leaseholds	168,189	81,875	86,314	91,754
Plant under construction	101,901	-	101,901	111,999
Materials and supplies	15,809	-	15,809	14,682
Land	4,957	-	4,957	4,931
	$2,792,744	$1,920,830	$871,914	$904,220

Depreciation and amortization for the year totaled $160,388,240 (2007 - $157,800,585).

Note 10 – Indefinite-life Intangible assets

Indefinite-life intangible assets consist of spectrum licenses in Saskatchewan acquired during the year, in the amount of $65,980,507. The licenses have been determined to have an indefinite life and as such are not amortized.

Note 11 – Sinking funds

Sinking funds are established under conditions attached to a portion of the long-term debt. The fund is administered by the Province of Saskatchewan and includes the Corporation's required contributions, its proportional share of earnings and its proportional share of revaluation gains or losses.

The changes in the carrying amount of sinking funds are as follows:

	2008	2007
		(Thousands of dollars)
Sinking funds, beginning of year	$45,566	$41,164
Installments	2,216	2,216
Earnings	2,693	1,552
Valuation adjustments, during the year	(391)	634
Sinking funds, end of year	$50,084	$45,566

Notes to Financial Statements

Note 12 – Other assets

	2008	2007
		(Thousands of dollars)
Deferred expenses	$7,785	$8,378
Financing leases	1,380	1,274
Other	246	320
	$9,411	$9,972

Amortization for the year totaled $74,022 (2007 - $86,208).

Note 13 – Notes payable

The balance represents amounts due to Holdco which are unsecured and bear interest at the Holdco's borrowing rate of 1.55% (2007 – 3.85%), with no fixed repayment terms.

Note 14 – Long-term debt

	Years to Maturity	Weighted Average Interest Rate (%)	2008	2007
				(Thousands of dollars)
Province of Saskatchewan				
Canadian dollar issues (a)	2	6.15	$60,176	$81,053
Canadian dollar issue (a)	12	10.08	125,752	125,717
Canadian dollar issues (a)	21	5.60	35,000	35,000
			220,928	241,770
Other			415	453
Total long-term debt			221,343	242,223
Less current portion			2,339	23,134
			$219,004	$219,089

(a) Under conditions attached to a portion of the long-term debt, the Corporation is required to pay annually into sinking funds, administered by the Province of Saskatchewan, one percent of the debt outstanding (see note 11).

Sinking fund installments and anticipated long-term debt repayments (net of sinking funds) due over the next five years are as follows:

	(Thousands of dollars)
2009	$2,362
2010	54,570
2011	1,616
2012	1,616
2013	1,616

Notes to Financial Statements

Note 15 – Equity advances and additional capital disclosures

a) Equity advance

The Corporation's equity financing is in the form of equity advances of $250,000,000 (2007 - $250,000,000) from CIC and $85,572,000 (2007 - $85,572,000) from Holdco.

b) Additional capital disclosures

The Corporation's objectives when managing capital are to ensure adequate capital to support the operations and growth strategies of the Corporation, and to ensure adequate returns to the shareholder.

The capital structure is determined in conjunction with the shareholder based on the approved business plans.

The Corporation monitors capital on the basis of the debt ratio. The ratio is calculated as net debt divided by end of period capitalization. Net debt is defined as total debt, including long-term debt, notes payable and the current portion of long-term debt, less sinking funds, and cash and cash equivalents. Capitalization includes net debt, equity advances and retained earnings at the period end.

The Corporation's strategy, which is unchanged from 2007, is to maintain a debt to equity ratio of below 45%.

The debt ratio is as follows:

	2008	2007 (Thousands of dollars)
Total debt	$438,346	$413,562
Less: Sinking funds	50,084	45,566
Net debt	388,262	367,996
Equity	562,670	527,804
Capitalization	$950,932	$895,800
Debt ratio	40.8%	41.1%

The Corporation is not subject to any externally imposed capital requirements.

Notes to Financial Statements

Note 16 – Commitments and contingencies

Commitments

The future minimum payments under operating leases and contractual obligations for services in each of the next five years are as follows:

	(Thousands of dollars)
2009	$37,396
2010	34,055
2011	24,956
2012	23,967
2013	15,686

The above payments include $20,940,102 for leases with related parties.

Contingencies

On August 9, 2004, a proceeding under the Class Actions Act (Saskatchewan) was brought against several Canadian wireless and cellular service providers, including Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireless customers of breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning system administration fees. The Plaintiffs seek unquantified damages from the defendant wireless communications service providers. Similar proceedings have been filed by, or on behalf of, Plaintiffs' counsel in other provincial jurisdictions. On July 18, 2006, the Saskatchewan court declined to certify the action as a class action, but granted the Plaintiffs leave to renew their application in order to further address certain statutory requirements respecting class actions. The Plaintiffs renewed their application for certification and the renewed application was heard in June of 2007. On September 17, 2007, the Saskatchewan court certified the Plaintiff's proceeding as a class action with respect to an allegation of unjust enrichment only. The Corporation, together with all other defendants in the proceedings have filed motions with the Saskatchewan Court of Appeal seeking leave to appeal the decision of the court certifying the action as a class action. The Corporation's leave to appeal application is presently before the Court of Appeal. No specific date has yet been set for the hearing of that application. The application has recently been adjourned pending two motions that need to be decided before SaskTel's application for leave to appeal can be heard. The Corporation continues to believe that it has strong defenses to the allegations and that legal errors were made by the court in the certification proceeding.

On March 20, 2007, R.L.T.V. Investments Inc. brought a lawsuit against Saskatchewan Telecommunications Holding Corporation, Saskatchewan Telecommunications and several current and former officers and employees of Saskatchewan Telecommunications. The lawsuit includes allegations that the Corporation wrongfully obtained its Multipoint Communication Systems (MCS) licence in Saskatchewan and is legally responsible for the failure of Image Wireless Communications Inc. as a consequence of alleged breach of contract, intentional interference with trade or business, deceit, misrepresentation and breach of the Competition Act. The Plaintiff claims damages in excess of $87 million. The Corporation believes that it has strong defenses to the allegations and a motion to strike all claims against the defendants was heard on September 25, 2007. The court struck the lawsuit in its entirety and the Plaintiff's appeal of the decision to the Saskatchewan Court of Appeal was heard on November 20, 2008 with the decision to be given at a later date.

Notes to Financial Statements

Note 16 – Commitments and contingencies, continued

On June 26th, 2008, a proceeding under the Class Actions Act (Saskatchewan) was brought against several Canadian wireline, wireless and cellular service providers, including Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireline and wireless customers of breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning fees and charges paid for 9-1-1 service. The Plaintiffs seek unquantified damages from the defendant communications service providers. Thus far the claim has simply been issued by the Plaintiffs. The Corporation is not aware whether all the named defendant carriers have been served with the claim yet. The Corporation believes that it has strong defenses to the allegations that are made by the Plaintiffs in the claim and will be strongly defending and opposing the claims that have been made. External legal counsel has been retained by the Corporation to handle this matter.

Should the ultimate resolution of these actions differ from management's assessments and assumptions, a material adjustment to the Corporation's financial position or results of operations could result.

In the normal course of operations, the Corporation becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at December 31, 2008 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Corporation's financial position or results of operations.

Deferral account

The previous price cap framework, which expired in May of 2007, included a mechanism known as the "deferral account". This mechanism was used to mitigate potential adverse effects on competition in the local market which the CRTC felt might be caused by mandated reductions in the price of local residential service. Rather than lowering rates, as the price cap formula would otherwise have required, the CRTC directed the Corporation to keep a record of the amount of revenue which would otherwise have been lost. Various adjustments to this amount were allowed or required as a result of specific CRTC policy directives.

A new price cap framework, which no longer contains a deferral account mechanism, became effective May 2007. However, there is an outstanding deferral account balance generated during the previous price cap period, which, in Saskatchewan must be used to fund initiatives such as service improvements for the disabled.

On January 17, 2008, the CRTC released its decision in the proceeding determining the specific uses of the deferral account and approving the Corporation's proposals. The Corporation will spend the deferral accounts remaining balance of $1.1 million over the next three years on items designed to improve service for the disabled.

Notes to Financial Statements

Note 17 – Additional financial information

a) Balance sheet

	2008	2007 (Thousands of dollars)
Accounts receivable		
Customer accounts receivable	$76,838	$78,867
Accrued receivables - customer	3,946	4,933
Allowance for doubtful accounts	(9,025)	(3,997)
	71,759	79,803
High cost serving area subsidy	5,110	5,651
Other	8,424	13,621
	$85,293	$99,075
Prepaid expenses		
Prepaid expenses	$5,329	$5,754
Deferred service connection charges	6,360	6,313
	$11,689	$12,067
Accounts payable and accrued liabilities		
Trade accounts payable and accrued liabilities	$52,104	$75,537
Payroll and other employee-related liabilities	50,794	50,591
Taxes payable	5,000	5,533
Interest payable	2,441	2,790
Other	233	92
	$110,572	$134,543
Services billed in advance		
Advance billings	$36,658	$32,787
Deferred service connection charges	7,912	7,994
Customer deposits	4,458	3,335
	$49,028	$44,116

b) Supplementary cash flow information

	2008	2007 (Thousands of dollars)
Net change in non-cash working capital		
Accounts receivable	$6,834	$(8,906)
Inventories	596	(2,658)
Prepaid expenses	355	(2,457)
Accounts payable and accrued liabilities	(19,137)	(1,474)
Services billed in advance	6,337	4,633
Deferred revenues	(480)	625
	$(5,495)	$(10,237)
Interest paid	$20,508	$21,901

Notes to Financial Statements

Note 18 – Financial instruments

The Corporation's financial instruments include accounts receivable, sinking funds, bank indebtedness,. accounts payable and accrued liabilities, dividend payable, notes payable and long-term debt, which by their nature are subject to risks.

a) Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk, principal and remaining maturities. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-orientated information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The following table represents the carrying amounts and fair values of financial assets and liabilities measured at fair value or amortized cost:

(Thousands of dollars)		2008		2007	
Financial Instruments	Classification[1]	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets					
Accounts receivable	LAR	**$85,293**	**$85,293**	$99,075	$99,075
Accounts receivable - held for sale	LAR	**7,401**	**7,401**	-	-
Sinking funds	HFT	**50,084**	**50,084**	45,566	45,566
Financial Liabilities					
Bank indebtedness	OL	**$6,669**	**$6,669**	$2,479	$2,479
Accounts payable and accrued liabilities	OL	**110,572**	**110,572**	134,543	134,543
Accounts payable and accrued liabilities - held for sale	OL	**4,586**	**4,586**	-	-
Dividend payable	OL	**23,411**	**23,411**	5,545	5,545
Notes payable	OL	**217,003**	**217,003**	171,339	171,339
Long-term debt	OL	**221,343**	**293,132**	242,223	319,321

[1] Classification details are:
HFT – held-for-trading
LAR – loans and receivables
OL – other liabilities

The carrying values of accounts receivable, bank indebtedness, accounts payable and accrued liabilities, dividend payable and notes payable approximate their fair values due to the short-term maturity of these financial instruments.

Sinking funds are recorded at fair value based on quoted market prices for the securities held by the fund.

The fair values of the Corporation's long-term debt are estimated based on quoted market prices for the issues or for similar issues.

Notes to Financial Statements

Note 18 – Financial instruments, continued

b) Currency risk

The Corporation is exposed to currency risk, primarily US dollars, through transactions with foreign suppliers, foreign currency denominated revenues and short-term foreign commitments. Assuming all other variables remained constant at December 31, 2008, currency fluctuations in excess of 15% would have a material impact on net income. Specifically, a 15% weakening in the Canadian dollar versus US dollar exchange rate would have a 4.6% unfavourable effect on net income while a 15% strengthening would have a 4.6% favourable effect on net income. The Corporation uses a combination of derivative financial instruments to manage these exposures when deemed appropriate. The Corporation does not actively trade derivative financial instruments.

c) Interest rate risk

The Corporation is exposed to interest rate risk arising from fluctuations in interest rates on sinking funds, short-term obligations and long-term debt. The most significant of these is interest rate risk related to issuance of long-term debt. However, assuming all other variables remained constant at December 31, 2008, a 10% (25 basis point) increase or decrease in interest rates would not have a material impact on net income.

Interest rate risk on short and long-term liabilities are managed based on the refinancing needs of the Corporation using derivative financial instruments when deemed appropriate.

The average effective interest rate on the Corporation's long-term debt was 8.24% while the average actual interest rate on long-term debt was 8.31%.

d) Market risk

The Corporation is exposed to market risk primarily through the sinking funds. Fair value adjustments will fluctuate based on changes in market prices. The sinking funds consist of mostly Provincial government and Federal government bonds with varying maturities to coincide with related debt maturities, and are managed based on this maturity profile and market conditions. Fair value adjustments similar to those experienced up to December 31, 2008 would not have a material impact on net income.

e) Credit risk

The Corporation is exposed to credit risk through its accounts receivable and sinking fund assets. Credit risk related to sinking fund assets is minimized by dealing with institutions that have strong credit ratings. Credit risk related to customer accounts receivable is minimized because of the large and diverse customer base covering many consumer and business sectors. The Corporation evaluates customer credit risk and limits credit availability when necessary.

Notes to Financial Statements

Note 18 – Financial instruments, continued

The carrying amount of financial assets represents the maximum credit exposure as follows:

	2008	2007 (Thousands of dollars)
Accounts receivable	$85,293	$99,075
Accounts receivable - held for sale	7,401	-
Sinking funds – held for trading	50,453	45,566
	$143,147	$144,641

The aging of customer receivables, which indicates potential impairment losses, is as follows:

Continuing operations	2008	2007 (Thousands of dollars)
Current	$54,297	$59,997
30-60 days past billing date	11,772	13,955
61-90 days past billing date	4,949	3,508
Greater than 90 days past billing date	5,820	1,407
Total	$76,838	$78,867

Assets held for sale	2008	2007 (Thousands of dollars)
Current	$3,554	$-
30-60 days past billing date	3,391	-
61-90 days past billing date	1,336	-
Greater than 90 days past billing date	2,107	-
Total	$10,388	$-

Provisions for credit losses are maintained and regularly reviewed by the Corporation, based on an analysis of the aging of customer accounts. Amounts are written off once reasonable collection efforts have been exhausted. Details of the allowance account are as follows:

Continuing operations	2008	2007 (Thousands of dollars)
Allowance for doubtful accounts, opening balance	$2,994	$4,240
Accounts written off	(8,183)	(11,687)
Recoveries	2,848	4,374
Provision for losses	11,366	7,070
Allowance for doubtful accounts, closing balance	$9,025	$3,997

Notes to Financial Statements

Note 18 – Financial instruments, continued

Held for sale	2008	2007
		(Thousands of dollars)
Allowance for doubtful accounts, opening balance	$1,003	$-
Accounts written off	(1,376)	-
Recoveries	271	-
Provision for losses	3,068	-
Allowance for doubtful accounts, closing balance	$2,966	$-

f) Liquidity risk

The following are the contractual maturities of financial liabilities, including interest payments:

December 31, 2008

	Carrying Amount	Contractual cash flows	6 mths or less	7-12 mths	2 years	3-5 years	More than 5 years
						(Thousands of dollars)	
Long-term debt	$221,343	$448,141	$28,670	$9,206	$78,411	$44,164	$287,690
Notes payable	217,003	223,731	1,682	1,682	220,367	-	-
Dividend payable	23,411	23,411	23,411	-	-	-	-
Accounts payable and accrued liabilities	110,572	110,572	110,572	-	-	-	-
Accounts payable and accrued liabilities - held for sale	4,586	4,586	4,586	-	-	-	-
	$576,915	$810,441	$168,921	$10,888	$298,778	$44,164	$287,690

December 31, 2007

	Carrying Amount	Contractual cash flows	6 mths or less	7-12 mths	2 years	3-5 years	More than 5 years
						(Thousands of dollars)	
Long-term debt	$242,223	$461,939	$9,659	$29,985	$18,411	$107,854	$296,030
Notes payable	171,339	184,532	3,298	3,298	177,936	-	
Dividend payable	5,545	5,545	5,545	-	-	-	-
Accounts payable and accrued liabilities	134,543	134,543	134,543	-	-	-	-
	$553,650	$786,559	$153,045	$33,283	$196,347	$107,854	$296,030

Sufficient operating cash flows are expected to be generated to fund these contractual obligations. In addition, the Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows.

Notes to Financial Statements

Note 19 – Employee future benefits

The Corporation has a defined benefit pension plan (a), a defined contribution pension plan (b), and a service recognition defined benefit plan (c).

a) Defined benefit pension plan

The defined benefit pension plan is governed by Saskatchewan Telecommunications (SaskTel) which has been closed to new membership since 1977. The defined benefit pension plan is registered under *The Pension and Benefit Act, 1992*, Saskatchewan, the *Income Tax Act*, Canada and is regulated by the Saskatchewan Financial Services Commission – Pension Division. The Corporation is responsible for adequately funding the defined benefit pension plan. Contributions are determined by actuarial valuations. The contributions reflect actuarial assumptions about future investment returns, salary projections and future service benefits. A valuation is performed at least every 3 years in accordance with *The Pension and Benefit Act, 1992*, Saskatchewan, to determine the actuarial present value of the accrued pension benefit. The latest valuation is dated September 30, 2008 and was performed as of December 31, 2007.

The defined benefit pension plan provides a full pension at age 65, at age 60 with at least 20 years of service or upon completion of 35 years of service. The pension is calculated to be 2% times the average of the highest three years of pensionable earnings times the number of years of service up to a maximum of 35 years of service. A reduced pension may be opted for if certain age and years of service criteria are met. Pensions are subject to annual indexing with the Consumer Price Index (CPI) up to a maximum of 2% per year.

For employees that retire before the age of 65 but meet other age plus service requirement either a reduced or unreduced pension may be payable.

The introduction of the ERP resulted in a curtailment to the defined benefit pension plan and recognition of special termination benefits costs. The impact of the curtailment was to reduce the accrued benefit obligation by $18,010,317 (2007 - $24,987,614). Special terminations benefits costs totaled $11,584,267 (2007 - $31,884,084).

Key assumptions used as inputs to the actuarial calculations are:

	2008	2007
Discount rate	**7.50%**	5.50%
Expected return on plan assets	**6.75%**	6.75%
Inflation rate	**2.50%**	2.50%
Expected salary increase	**3.00%**	3.00%
Post-retirement index (not to exceed 2%)	**100% of CPI**	100% of CPI

The table below shows the allocation of pension plan assets:

Asset category	2008	2007
Equity securities	**52.7%**	52.9%
Bonds	**32.6%**	27.9%
Short-term investments (treasury bills, notes and commercial paper)	**4.6%**	11.4%
Real estate	**10.1%**	7.8%
	100.0%	100.0%

Notes to Financial Statements

Note 19 – Employee future benefits, continued

The table below shows the components of the defined pension plan cost:

	2008	2007 (Thousands of dollars)
Current service cost – defined benefit plan	$2,663	$4,436
Interest cost	54,350	52,328
Expected return on pension plan assets	(63,367)	(59,897)
Special termination benefits costs	11,584	31,884
Amortization of net transitional asset	(11,651)	(11,651)
Amortization of past service costs	3,538	3,808
Amortization of actuarial loss	1,726	5,166
Net pension (income) expense	$(1,157)	$26,074

The accrued benefit obligation, plan assets and deferred pension cost tables below show the change in the defined benefit pension plan and the change in the fair value of the plan's assets during the year and the status of the plan as at December 31, 2008 and 2007.

Accrued benefit obligation	2008	2007 (Thousands of dollars)
Accrued benefit obligation, beginning of year	$1,015,444	$1,049,368
Impact due to change in actuarial valuation	7,389	-
Current service cost	3,413	5,622
Curtailment gain	(18,010)	(24,988)
Interest cost	54,348	52,329
Benefits paid	(63,273)	(58,529)
Impact due to change in discount rate	(184,125)	(40,242)
Special termination benefits costs	11,584	31,884
Accrued benefit obligation, end of year	$826,770	$1,015,444

Plan assets	2008	2007 (Thousands of dollars)
Fair value of plan assets, beginning of year	$1,044,655	$1,007,653
Actual return on plan assets	(167,182)	54,080
Employer contributions	29,599	40,265
Employee contributions	749	1,186
Benefits paid	(63,273)	(58,529)
Fair value of plan assets, end of year	$844,548	$1,044,655

Deferred pension costs	2008	2007 (Thousands of dollars)
Funded status surplus	$17,778	$29,211
Unamortized transitional asset	(3,844)	(15,496)
Unamortized past service costs	1,056	4,595
Unamortized net actuarial losses	76,528	42,451
Deferred pension costs	$91,518	$60,761

Notes to Financial Statements

Note 19 – Employee future benefits, continued

b) Defined contribution pension plan

The defined contribution pension plan requires the Corporation to contribute 7% of employees' pensionable earnings and employees to contribute a minimum of 4% of pensionable earnings. The total cost for the defined contribution plan is equal to the Corporation's required contribution. The Corporation's 2008 pension cost and employer contributions for the Public Employees Pension Plan are $16,834,351 (2007 - $15,125,062).

c) Service recognition defined benefit plan

The service recognition defined benefit program provided a retiring allowance of two days salary per year of service which is payable on retirement. Based on the Collective Agreement between the Corporation and the Communications, Electrical and Paperworkers Union of Canada, ratified April 22, 2006, the service recognition defined benefit program was curtailed effective March 19, 2005.

Employees will no longer earn two days pay per year of service, however will continue to earn incremental pay increases for the earned service at March 19, 2005 until retirement. Key assumptions used as inputs to the actuarial calculations are:

	2008	2007
Discount rate	**7.40%**	5.00%
Expected salary increase	**3.00%**	3.00%
Estimated average remaining employee service life	**14.1 years**	14.1 years

Accrued benefit obligation

	2008	2007
		(Thousands of dollars)
Accrued benefit liability, beginning of year	**$17,772**	$19,356
Defined benefit service cost	**319**	1,256
Benefit payments	**(1,834)**	(2,840)
Accrued benefit liability, end of year	**$16,257**	$17,772

Note 20 – Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to CIC by virtue of common control by the Government of Saskatchewan, and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount

Notes to Financial Statements

Note 20 – Related party transactions, continued

which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year-end are as follows:

	2008	2007
		(Thousands of dollars)
Operating revenues	**$85,184**	$78,127
Operating expenses	**73,886**	56,792
Other items	**52**	89
Accounts receivable	**7,530**	7,023
Property, plant and equipment expenditures	**2,528**	1,368
Accounts payable and accrued liabilities	**6,177**	5,379

The Corporation participates in customer solutions which may involve delivery of the Corporation's services in conjunction with those of related parties. Participation in these customer solutions is done at no cost to the Corporation as agreed to by the related parties.

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Ministry of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

A director of the Corporation has an indirect minor interest in a related party from which the Corporation recorded operating revenues of $222,706, operating expenses of $20,301,393 for services rendered to the Corporation, accounts receivable of $22,122 and accounts payable and accrued liabilities of $1,738,027.

Other amounts and transactions due to (from) related parties and the terms of settlement are described separately in these financial statements and notes thereto.

Note 21 – Comparative figures

Certain of the 2007 figures have been reclassified to conform to the current year's presentation.